14:International Bank S-5 (1954) 1955 MD1 Syria MD1

454 corporation on a basis similar to the one we recommend, and Pakistan is contemplating the establishment of such an institution.

We have little doubt that the suggested bank would find ample opportunities for investment. While there is no absolute assurance that private capital can be found for the bank, our preliminary exploration in Syria warrants some optimism on this score. Commercial banks might well subscribe a substantial part of this capital, and the balance could probably be obtained from private individuals and business concerns.

While the bank would not make loans for working capital, it might indirectly make it easier for companies to obtain working capital from the regular commercial banks. The mission found that a number of industrial enterprises do have difficulty in obtaining sufficient working capital, particularly to finance heavy seasonal purchases of such agricultural raw materials as cotton, oilseeds, and fruits and vegetables for canning. The proposed bank might explore the possibility of financing the construction of bonded warehouses in Damascus and Aleppo where industrial enterprises could store raw materials and even finished goods in such a way as to furnish ample security for additional commercial bank credit.

Vocational Education

874 464 While appropriate technical and financial assistance can do much to raise industrial efficiency, the better training of labor is also important. At present vocational education is seriously inadequate. There is an urgent need to expand and improve vocational schooling so that it will effectively serve the requirements of industry and business and will be properly related to in-plant training. Specific recommendations on this subject are made in a subsequent chapter on education.

Projected Oil Refinery

491 302 With the exception of one ill-starred venture in which it went into partnership with private capital, the government has wisely left the ownership and management of manufacturing enterprises to private initiative. We are strongly convinced that this policy should continue to be followed. During the last few years it has been proposed from time to time that the government depart from this rule by establishing and operating a petro-

14:International Bank S-5 (1954)1955 MD1 Syria MD1

leum refinery. Syria now obtains its petroleum products, of which total consumption in 1953 amounted to around 450,000 metric tons, partly from the Tripoli refinery in Lebanon and partly from more distant sources of supply. By arrangements between the government and the distributing companies, prices in Syria are explicitly or implicitly based on ex-Tripoli prices plus transport costs. It is perhaps natural that Syria should want its own refinery, not only because a large volume of crude oil flows across its territory through the Trans-Arabian pipeline and the Iraq Petroleum Company's pipelines, but also because transport costs substantially increase the price of petroleum products.

A case for a government refinery might be made if there were no alternatives. Private companies, however, are apparently willing to erect such a refinery. The Iraq Petroleum Company, for instance, has offered to carry out its original pledge to construct and operate a refinery serving Syrian requirements. Its offer is apparently conditioned on an agreement with the government regarding pipeline transit dues and on the understanding that the refined products would be sold at the refinery site on the basis of the prices obtaining at the Tripoli refinery. The company has offered to raise the transit dues now paid but the desultory negotiations on this subject carried on over the past years have not produced an agreement. The mission does not necessarily suggest that an agreement for the construction of a refinery be made with the Iraq Petroleum Company but simply that the government avail itself of offers by private enterprise to build a refinery. Such a refinery together with appurtenant facilities would probably cost over £S 30 million, a sum which the government can ill afford to spend at a time when it is hard pressed to find all the resources required for projects for which private capital is not available. At the same time it is evident that the construction of a refinery in Syria would be advantageous to the economy. For example, if a Syrian refinery sold its products on the basis of the price formula proposed by the Iraq Petroleum Company, the cost of transport between Tripoli and Homs, the proposed site of the new refinery, would be saved. At present, the difference between the price of gas oil and fuel oil at Tripoli and Homs, for example, is £S 6.20 and £S 9.25 per metric ton respectively, or about 7% and 15% of the prices at Homs. The construction of the refinery would undoubtedly bring about a significant reduction in the prices of refined products throughout northern Syria, which consumes the bulk of the country's total requirements.

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
LEBANON ME1
SYRIA MD1

of clinics and in the cities a shortage of qualified staff to undertake massage, radiotherapy, and orthopædics, and there is special need to combat tuberculosis. Syrians and Lebanese are not addicted to hashish which, however, is grown in the Biqaa and smuggled to Egypt. The Lebanese Government periodically burns many of the plantations, which inflates the price of the surviving crop.

Economic Survey

More than half the population of the two countries is engaged in agriculture which is the most important economic activity. Natural resources hardly exist; there is bitumen in Jebel Bishri in Syria but its production would not be economic; about 10,000 tons a year of asphalt is produced from the neighbourhood of Latakia; and salt is extracted in commercial quantities near Aleppo.

Petroleum

For a number of years, associates of IPC searched for oil in Syria and Lebanon but without finding it in commercial quantities; in consequence, the areas held by these IPC associates have been given up. However, the two Governments are still anxious for further efforts to be made to find oil in commercial quantities. The importance of petroleum in the economy of Syria and Lebanon lies in the situation of the two republics athwart the pipelines from the fields of northern Iraq and Saudi Arabia which have outlets on the Mediterranean.[1] From Iraq a 12-inch and 16-inch line carry oil across Syria by way of Palmyra and Homs to Tripoli in the Lebanon. Together, these two lines can carry about 8 million tons of oil a year (160,000 barrels daily). A third IPC line from Kirkuk to Homs then bears north of the other two and reaches the sea at Banias, and so does not run through Lebanon at all. This new line is 26–30–32-inches in diameter and can deliver oil at about 16 million tons a year (320,000 barrels daily). From the fields of Saudi Arabia a 30–31 inch American pipeline (Tapline) travels over 1,000 miles on its way to Sidon in Lebanon, passing through Jordan and Syria. At present the line is pumping at a rate of about 15 million tons a year (300,000 barrels daily). It should be noted that these four lines all carry crude oil, some of which is refined on the Mediterranean shore for local requirements but the bulk is shipped as crude to the refineries of Europe and elsewhere.

The line from Kirkuk to Haifa is not operating and the Haifa

[1] See Appendix IV, p. 570 below.

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
LEBANON MEI
SYRIA MDI

refinery is running on imported crude oil at about a quarter of its capacity. There exists an IPC refinery at Tripoli which treats over half a million tons of crude a year (10,000 barrels a day) for the needs of Syria and Lebanon which it cannot fully supply; accordingly, its extension has been under discussion. Construction has begun on a refinery for 7,000 barrels a day at Sidon for Mediterranean Refining Company (California Texas Corporation), but while the Syrian market is still too small to justify the erection of a refinery, the Syrian Government nevertheless wishes to have a refinery established in the country to meet its own needs, and negotiations to this end with IPC and with the World Bank have recently taken place.[1]

Under the Barcelona Convention of 1921 dues are not leviable on transit trade, but the two countries draw, under their agreements with the pipeline companies, a sizable revenue from petroleum apart from the indirect benefits caused by employment by the oil companies. At the time of writing the agreements between the two Governments and the two oil companies are under review but no precise details are available, though the two Governments began by demanding that they should receive jointly a half share of the saving which the companies made by using the pipelines instead of having to transport their oil to the Mediterranean by tanker. Even if this principle were accepted, the difficulty would remain of establishing a satisfactory formula for calculating the saving. The agreement with Tapline is believed to provide Lebanon with about £L4½ million a year. The oil companies bring foreign exchange into Syria and the Lebanon and the currency is surrendered to the Governments at the official rate but can thereafter be resold at the rate applying to the free market which may bring to the Governments a profit of a third. The problem is that Syria and Lebanon are, in fact, not oil-producing states and, although their needs and desires for foreign money may be as great as Iraq's, it is difficult to see how they can expect to obtain from petroleum the same revenue as do the states where it is produced.

Communications

In general, roads provide a cheaper and quicker means of transport than the railways which are mostly running at a loss. The railway lines are:

The Hejaz Railway. A narrow (3 ft 5 in.) gauge track runs from the centre of Damascus to Deraa (88 miles) and thence

[1] See *Petroleum Press Service*, February 1953, p. 59.

64: Shwadran S-4 (no date) 1955 MI Middle East
Syria MDI
Lebanon MEI

S 471 [387] 651

interfered with operations, which were resumed in 1947. The Company gave up its concession in August, 1951.[22]

In 1954 it was reported in Damascus that the annual internal consumption of petroleum was about 350,000 tons and that the Government was negotiating with Tapline and I.P.C. to build two refineries near Damascus, the cost of which was to be deducted from the Government's revenue from the two companies.

So far Syria has failed to discover oil in her territory, but the Tapline and I.P.C. pipelines have become important sources of income to the Government and the cause of constant friction between it and the oil companies. From 1947 to 1952 the increase in the income from pipelines was considerable, but the local agitation for higher royalties has been continuous and, in the spirit of the prevailing practice in the area, a demand for a 50 per cent profit-sharing arrangement is constantly being echoed.

Lebanon

L 471 651

Lebanon signed an agreement with I.P.C. in 1931 under the same conditions as the other countries. The first pipeline ran through her territory for only seventeen miles. The northern branch of the line terminated at Tripoli where a farm of fifteen 93,000-barrel tanks was built. The loading fee at Tripoli was 2 pennies per ton.

In 1947 Lebanon signed the agreement with Tapline mentioned above, and that same year I.P.C. agreed to pay Lebanon transit fees amounting to £45,000 annually. A new agreement with I.P.C. was signed in 1952, raising the transit fees to about £450,000 annually. A new agreement was also signed with Tapline in 1952; it provided for a basic increase in transit fees, for $3 per ton up to 200,000 tons for petroleum products consumed in the country; an increase in the loading fee at Sidon; and annual contributions of $21,000 for the maintenance of the public highways used by the Company's vehicles and $17,000 to the municipalities of Beirut and Sidon in consideration of services.[23]

[22] A. H. Hourani, *Syria and Lebanon* (London, 1946), 155; Longrigg, *Oil in the Middle East*, 91-93.

[23] United Nations Department of Economic Affairs, *Review of Economic Conditions in the Middle East 1951-52*, 59, henceforth cited U. N. *Review* or